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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Reforms in the East Will Help The West

It is still too early to predict all of the ramifications for the world economy of the rapid changes that are taking place in Eastern Europe today, since many of them will depend upon these nations' ability to implement difficult economic reforms over the longer term. However, these historic events have already had a major impact upon Western financial markets. Perhaps the most noticeable has been the emergence of the Deutschemark as the world's most sought after currency. Fueled by perceptions in the foreign exchange markets that the political and economic changes occurring in Eastern Europe will not only benefit the West German economy but could also result in even higher West German interest rates, the Deutschemark has risen by ten percent against the U.S. dollar, more than five percent versus the U.K. pound and by almost 12 percent against the Japanese yen since the crumbling of the Berlin Wall on November 9.

The driving force behind the Deutschemark's rapid appreciation has been traders' beliefs that West Germany's strong links with Eastern Europe and the influx of immigrants from East Germany will spur economic growth in West Germany. The anticipated increase in consumer spending, employment, construction and investment is expected to keep West Germany's rate of real GDP expansion above three percent this year, following last year's four percent clip. In fact, West Germany's Economics Ministry has said that real GDP could be boosted by an extra one half of one percentage point in 1990, due solely to the effects of the 700,000 East German and Eastern European immigrants who entered the country in 1989.

What is more, the possible inflationary impact of the increase in domestic demand is expected to encourage the Bundesbank to keep a tight grip on monetary policy. This could mean another hike in West German interest rates before too long since the Bundesbank is already concerned about the effect that hefty wage settlements anticipated for this year could have on the inflation rate. Plainly, higher interest rates will also add to the Deutschemark's allure.

At the same time, West Germany's fiscal policy will be more expansionary this year, due to the DM24 billion worth of tax cuts that went into effect this month. This combination of a tight monetary policy and a loose fiscal policy will also keep the Deutschemark strong. It was the recipe for the dollar's ascent in the early 1980s.

While West Germany will be the major beneficiary of today's developments in Eastern Europe, given the special relationship that it has with these countries, other Western European nations will also gain from the East bloc's political and economic opening. For one thing, it will strengthen the ties among the 12-nation European Community (E.C.), helping to make it a more viable and competitive economic bloc. Both West German Chancellor Kohl and French President Mitterrand have emphasized that closer ties with Eastern Europe in general and progress toward German unification in particular can only take place within the framework of a united Western Europe. To emphasize this point, moves toward monetary union were accelerated last month when the E.C. leaders agreed at their summit meeting in Strasbourg to establish an intergovernmental congress in December 1990 that will revise the E.C.'s founding treaty in order to accommodate the final stages of monetary union. And, in order to reconfirm France's commitment to a unified Western Europe, President Mitterrand agreed to abolish French exchange controls this month, six months ahead of schedule (Financial Digest—July 31, 1989).

For another, some of the increase in consumer spending in West Germany that will result from the influx of East German immigrants should spill over into imports. This will help to reduce West Germany's huge trade surpluses with the rest of the E.C.

A New Spark To World Economic Growth

Buoyant economic growth in West Germany will be extremely important to the economic performance of the world economy this year because it comes at a time when a marked slowdown in economic expansion is anticipated for three of the G-7 nations—the United States, the United Kingdom, and Canada. However, relatively healthy growth in West Germany, along with continental Western Eu-

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rope and Japan, should keep the average growth rate for the industrial countries close to three percent this year, down only marginally from last year's 3.6 percent pace.

One of the driving forces behind the current global economic expansion has been the sharp increase in world trade. Political and economic reforms initiated in Eastern Europe point to further opportunities in this area. In particular, the anticipated restructuring of the East bloc economies will require substantial inflows of capital goods which will have to be supplied by countries outside the region, thereby giving a new spark to world trade.

Computer and Telecommunications Industries Should Benefit

The end of the cold war is also prompting the Western allies to relax controls on the transfer of high technology products to the Eastern European countries which are implementing democratic and free-market reforms. This could mean hundreds of billions of dollars in orders for the information technology sector in Western Europe, the United States and Japan. Probably more than any other industry, computer and telecommunications companies in the West will be poised to benefit from the reforms in the East as their products will be critical to the modernization of the Eastern Europe

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/27/89)	214,632	- 774	+ 18,600
New York City (1/3/90)	41,333	+ 116	- 591
Commercial Paper (1/3/90)	529,309	+ 6,829	+ 72,001

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loa

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ag
Nationwide (12/27/89)	318,341	- 1,243	+ 15,79
New York City (1/3/90)	57,974	- 952	+ 2,38

Total Loans and Leases Gross Adj

	Latest Week	Change Since Week Ago	Change Since Year Ag
Nationwide (12/27/89)	994,116	- 2,241	+ 75,423
New York City (1/3/90)	179,334	- 1,296	+ 7,174

Financial Markets

	Friday 1/12/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.74%	+ .03	- .72
180-Day Bills†	7.80	- .05	- .98
Longest Bills†	7.75	- .09	- 1.21
Recent issues:			
7⅛s 12/31/90	7.92	+ .04	
7⅛s 12/31/93	7.96	+ .06	
7⅞s 11/15/99	8.09	+ .11	
8⅛s 8/15/19	8.16	+ .10	
Municipals:			
Bond Buyer—20 Bond Index* (1/11/90)	7.03%	—0—	- .37
Blue List Total ($ Million)	$1,268	- $207	+ $282
30-Day Visible Supply ($ Million)	$1,007	- $ 64	- $814
Total	$2,275	- $271	- $532
Corporates:			
Moody's Aa Composite (1/11/90)	9.20	+ .02	- .66
30-Day Visible Supply ($ Million)	$2,825	+ $104	+ $388
Stocks:			
Dow-Jones Averages:			
Industrials	2,689.21	- 84.04	+463.14
Transportation	1,140.65	- 38.58	+143.89
Utilities	220.70	- 6.73	+ 32.16
65 Stocks	1,002.31	- 31.94	+155.97
N.Y.S.E. Composite Index	188.32	- 6.32	+ 28.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	162,598	- 9,885	+19,160

*34% Taxable equivalent 10.65%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/12/90	Week Ago
Overnight	8.06%	8.13
1 month	8.13	8.19
3 month	8.13	8.19
6 month	8.13	8.19
1 year	8.13	8.19

FOREIGN EXCHANGE SPOT RATES New York Opening (1/12/90)	Currency Per U.S. $	Week Ago
Belgium	35.36	35.62
Canada	1.1567	1.1612
France	5.7250	5.7820
Germany	1.6813	1.6935
Italy	1255.00	1271.50
Japan	145.33	144.40
Mexico	2661.00	2654.00
Netherlands	1.8975	1.9135
South Korea	682.90	681.00
Switzerland	1.4950	1.5465
Taiwan	26.05	26.09
U.K.*	1.6670	1.6310

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/12/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/8
	-0.1%	-3.5

economies. Over the next ten years, Eastern Europe is expected to spend more than $130 billion on telecommunications alone.

One of the major problems that will confront Western investors, however, is that countries in Eastern Europe lack the hard currency necessary to pay for these products. Tourism could be a potential source. While foreign travel to Eastern Europe and the Soviet Union has been surging in recent months, most Eastern bloc countries don't have nearly enough hotels to meet the demand. In response, several major hotel chains are building new hotels in Warsaw, Budapest, Prague and Moscow, but, according to many travel agents, even these projects won't be enough.

While the United States may not stand to reap as many trade and investment benefits as some of the better-positioned countries in Western Europe, the ongoing reforms in Eastern Europe are not without some pluses. Perhaps the most significant advantage is that the end of the cold war will bring to this country the opportunity to use the huge savings from lower defense spending to reduce Washington's budget deficit. This, in turn, could mean lower interest rates, greater investment, and stronger growth in the United States in the 1990s--important benefits in their own right. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/10/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	233,510	- 2.302	- 12.209
Loans to Depository Inst.	.155	- .369	- 1.661
Float	1.458	+ .311	- .358
Total Reserve Bank Credit	274.258	- 2.185	+ 6.247
Treasury Deposits with Federal Reserve Banks	5.416	- .866	- .826
Currency in Circulation	259.135	- 1.433	+13,248
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	228.427	+ .326	- 2.216
Member Bank Reserves:	**1/10/90**		
Total Reserves Held	63.574	+ 1.830	- .471
Excess (Deficiency)	1.020	- .017	- .127
Net Free Reserves	.699	- .006	- .392

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (1/1/90)	805.2	+ 8.1	+ 1.1
M2 (1/1/90)	3,221.4	+ 7.7	+ 4.9
M3 (1/1/90)	4,046.4	+ 3.4	+ 3.1
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/12/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.53%	7.42%	7.21%
* Federal Agencies	8.33	7.63	8.71
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.05	7.95	7.85
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.15	8.15	8.00

‡ Finance Company Paper–Prime

5- 14 days	8.05%
15- 29 days	8.05
30- 59 days	8.05
60- 89 days	7.95
90-179 days	7.81
180-239 days	7.50
240-270 days	7.50

‡* Bankers' Acceptances

Feb.	8.10%
Mar.	8.00
Apr.	7.94
May	7.90
Jun.	7.84
Jul.	7.80

‡ Industrial Paper–Prime

30- 89 days	8.10%
90-120 days	8.03

†Federal Funds Effective Rate 8.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'89	$ 5,281	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89	$ 4,163	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89	3.0	2.5	3.2
Change in Consumer Prices*	Nov '89	4.8%	6.0%	3.6%
Change in MH Cost of Living Index*	Nov '89	4.8%	7.2%	2.4%
Change in Producer Prices*	Dec '89n	8.4%	- 1.2%	4.8%
Civilian Employment (Thousands of Persons) †	Dec '89n	117,888	117,836r	116,141 r
Unemployment as % of Civilian Labor Force †	Dec '89n	5.3%	5.3%	5.3%
Personal Income*	Nov '89	$ 4,541	$ 4,503	$ 4,169
Leading Indicators Composite Index (1967=100) †	Nov '89n	144.7	144.5r	144.1
Industrial Production Index (1977=100) †	Nov '89n	141.5	141.3	139.9
Net Change in Consumer Installment Credit †	Nov '89n	$ 4.24	$ 3.19r	$ 5.28
U.S. Merchandise Trade Balance †	Oct '89	- $ 10.20	- $ 8.51	- $ 9.23
Plant and Equipment Expenditures*	1st Q'90	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	Nov '89	1,361	1,428	1,567
New Construction Expenditures*	Nov '89n	$ 421.7	$ 415.6r	$ 415.4
Total Business Inventories †	Oct '89	$ 793.9	$ 790.6	$ 743.0
Total Business Sales †	Oct '89	$ 519.2	$ 522.8	$ 498.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Leader

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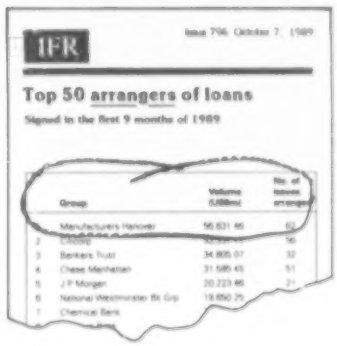
IFR

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Top 50 arrangers of loans

Signed in the first 9 months of 1989

	Group	Volume (US$bn)	No. of issues arranged
1	Manufacturers Hanover	56.631.46	62
2	Citibank	50....	56
3	Bankers Trust	34.805.01	32
4	Chase Manhattan	31.585.45	51
5	J P Morgan	20.223.46	21
6	National Westminster Bk Grp	19.650.25	
7	Chemical Bank		

we do this.

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Which is why our financings ultimately make headlines. Why we're at the top of the league tables. Why we're leaders in global corporate finance.

We thank all our issuers and investors for making us number one.

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